



**State of California  
Franchise Tax Board**

# 2002 Guidelines for Corporations Filing A Combined Report

See California Code Regulations Section 25106.5-0 through Section 25106.5-11 for combined reporting definitions and procedures adopted under Section 25106.5 of the Revenue and Taxation Code.

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## Other Booklets/Publications

Other booklets/publications prepared by the Franchise Tax Board include:

- Form 100, California Corporation Tax Booklet
- Form 100W, Water's-Edge Booklet
- FTB Pub. 1038, Instructions for Corporations Requesting Tax Clearance Certificate
- FTB Pub. 1050, Application and Interpretation of Public Law 86-272
- FTB Pub. 1060, Guide for Corporations Starting Business in California
- FTB Pub. 1071, Guidelines For Voluntary Disclosure Agreements
- FTB Pub. 1149, Terminating a Corporation
- FTB Pub. 3817, Electronic Funds Transfer Program Information Guide
- FTB Pub. 4058, California Taxpayer's Bill of Rights — A Guide for Taxpayers

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# Corporations Filing a Combined Report

## What's Changed

In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th, 134 Cal Rptr. 2d 390, the California Court of Appeal found that the Revenue and Taxation Code (R&TC) Section 24402 deductible dividend provision discriminated against interstate commerce in violation of the Commerce Clause of the United States Constitution. R&TC Section 24402 provided for a deduction to the extent that the dividend payer was taxable in California. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.

The example of combined report computations and schedules inside this publication **have not** been updated to reflect the *Farmer Bros. Co. v. Franchise Tax Board* court decision. For an updated example, get the 2003 (REV. 04-04) version of FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

## Introduction

This publication sets forth the concepts of the unitary method of taxation and its application by the State of California to corporations subject to either the franchise tax or income tax. It includes instructions for preparing a combined report, which a corporation is required to use in computing its California tax liability when the corporate activities are part of a unitary business conducted by the corporation and its related corporations. A combined report is not equivalent to a consolidated return for federal purposes.

This publication does not address water's-edge statutes under which corporate taxpayers may elect to exclude from the combined report some or all of the income and apportionment factors of certain foreign affiliates in the unitary group. For more information about the water's-edge election, get Form 100W, Water's-Edge Booklet.

## Important Information

You can download, view, and print California tax forms, instructions, publications, Franchise Tax Board (FTB) Notices and Legal Rulings dated after 1995 from our Website [www.ftb.ca.gov](http://www.ftb.ca.gov). Information about other state agencies can be accessed through the State Agency Index located on the California State Website [www.ca.gov](http://www.ca.gov).

Regulations providing detailed rules regarding the general mechanics of combined reporting are in Title 18 Cal. Code Reg. Section 25106.5 through 25106.5-10. Because those regulations reflect long-standing practices of the Franchise Tax Board, the regulations generally apply retroactively and prospectively. In addition, those rules adopt, for accounting periods beginning on or after April 22, 1999, apportionment rules substantially reflecting the holdings of the Board of Equalization in *Appeal of Huffy, Corp.*, 99-SBE-005, April 22, 1999 and *Appeal of Joyce, Inc.*, 66-SBE-069, November 23, 1966 and Legal Ruling 234.

Regulations providing detailed rules relating to the treatment of intercompany transactions between members of a combined reporting group were adopted (Title 18, Cal. Code Reg. Section 25106.5-1). Those regulations apply to those

intercompany transactions, that occur between members in taxable years beginning on or after January 1, 2001.

## The Unitary Method

Corporations deriving income from sources both within and outside California are required to measure their tax liability by income derived from or attributable to sources within California. To determine the portion of total income that is attributable to this state, California utilizes the unitary business principle. This concept has been validated by income and franchise tax cases for more than 80 years.

Under the unitary method, as applied by California, all of the elements comprising a single trade or business are viewed as a whole or unit, hence the term "unitary." The business income from all activities of a unitary business is combined into a single report, whether such activities are conducted by divisions of a single corporation or by members of a commonly controlled group of corporations. For most businesses, the combined business income is apportioned to California by a formula derived from the Uniform Division of Income for Tax Purposes Act (UDITPA) and R&TC Sections 25120-25139. The elements required in a combined report are discussed in detail beginning on page 4.

### Development of the Unitary Method

The theory underlying the unitary business principle has its roots in property tax law, where the issue of apportionment arose during the 1870s in the context of railroad taxation (*State Railroad Tax Cases* (1876) 92 U.S. 575). A broader application later evolved as the states adopted the practice of measuring taxes by income. As early as 1920, the United States Supreme Court approved the use of a formula to apportion the income of a single corporation among several states in the case of *Underwood Typewriter Co. v. Chamberlain* (1920) 254 U.S. 113.

California's use of formula apportionment dates to 1929 and the enactment of the original Franchise Tax Act. The use of the unitary method to combine the income from unitary divisions of a single corporation was validated by the California Supreme Court in *Butler Bros. v. McColgan* (1941) 17 Cal.2d.664. In *Edison California Stores v. McColgan* (1947) 30 Cal.2d.472, the California Supreme Court extended the unitary business concept to allow apportionment of combined income of a common business activity conducted by a multi-corporate group.

While R&TC Section 25101 provides the general authority for use of the unitary business concept, no statutes have ever been adopted to define precisely the scope of application of the unitary principle. Instead, the law has evolved through a series of judicial decisions. For example:

- In *Superior Oil Co. v. Franchise Tax Board* (1963) 60 Cal.2d 406, the California Supreme Court held that once it is determined that a business with income from sources within and outside the state is unitary, formula apportionment **MUST** be utilized.

- The United States Supreme Court found California's application of the unitary business principle to multiple corporations to be constitutional in *Container Corporation v. Franchise Tax Board* (1983) 463 U.S. 159, aff'g 117 Cal. App.3d 988 (1981).
- Application of the unitary method is required whether the unitary business is carried on over state or international boundaries. Application of the unitary method to worldwide activities of a single corporation was first sanctioned by the United States Supreme Court in *Bass, Ratcliff & Gretton Ltd. v. State Tax Commission* (1924) 266 U.S. 271. More recent decisions upholding the application of the unitary method to worldwide activities of multiple corporations are *Container Corporation v. Franchise Tax Board*, discussed above; *Barclays Bank Internat., LTD v. Franchise Tax Board* (1994) 129 L. Ed 2d. 244 and *Colgate-Palmolive v. FTB* (1994) 129 L. Ed 2d. 244.

### Tests for Determining Unity

Both *Butler Bros.* and *Edison California Stores*, discussed previously, set forth tests to be used in determining whether the activities of several divisions or corporations should be considered unitary. In *Butler Bros.*, the court held that a "unitary business" exists where there is: (1) unity of ownership; (2) unity of operation as evidenced by central divisions for functions such as purchasing, advertising, accounting, and management; and (3) unity of use in its centralized executive force and general system of operations. In *Edison California Stores*, the court held that if the operation of the portion of the business done within the state is dependent upon or contributes to the operation of the business outside the state, the operations are unitary.

The three unities test and the contribution or dependency test have been applied by the California courts in a variety of cases. (See, e.g., *Superior Oil Co. v. Franchise Tax Board* (1963) 60 Cal.2d 406, 411-412; *Honolulu Oil Corp. v. Franchise Tax Board* (1963) 60 Cal.2d 417, 423-424; *John Deere Plow Co. v. Franchise Tax Board* (1951) 38 Cal.2d 214, 221-222; *Container Corporation of America v. Franchise Tax Board* (1981) 117 Cal.App.3d 988, 994-1001, aff'd 463 U.S. 159, (1983); *Chase Brass & Copper Co. v. Franchise Tax Board* (1970) 10 Cal.App.3d 496, 501-502.) If either the three unities test or the contribution/dependency test is satisfied, the businesses are unitary (*A.M. Castle & Co. v. Franchise Tax Board* (1995) 36 Cal. App. 4th 1794.)

The United States Supreme Court has also referred to a unitary business as one that exhibits "contributions to income resulting from functional integration, centralization of management, and economies of scale." (*Mobil Oil Corp. v. Comm'r of Taxes of Vt.* (1980) 445 U.S. 425, 438; *F. W. Woolworth Co. v. Taxation and Revenue Dep't of the State of N.M.* (1982) 458 U.S. 354, 366, *Allied Signal v. Director, Taxation Division* (1992) 504 U.S. 768.) That court further noted that, "[t]he prerequisite to a constitutionally acceptable finding of a unitary business is a flow of value, not a flow of goods." (*Container Corp. of*

*America v. Franchise Tax Board* (1983) 463 U.S. 159, 178.) The Supreme Court has stated that for commonly controlled activities to be nonunitary, they must be part of "unrelated business activity which constitutes a 'discrete business enterprise.'" (*Mobil Oil Corp.*, supra, 445 U.S. at 439-440.)

Title 18 Cal. Code Reg. Section 25120 provides additional rules and examples regarding what constitutes a unitary business. The regulation: (1) recognizes that a single taxpayer may have more than one "trade or business"; and (2) sets forth three factors, the presence of any one of which creates a "strong presumption" that the activities of the taxpayer constitute a single trade or business. Title 18 Cal. Code Reg. Section 25120 provides in pertinent part:

(b) Two or More Businesses of a Single Taxpayer. A taxpayer may have more than one "trade or business." In such cases, it is necessary to determine the business income attributable to each separate trade or business. The income of each business is then apportioned by an apportionment formula which takes into consideration the in-state and out-of-state factors which relate to the trade or business the income of which is being apportioned.

The determination of whether the activities of the taxpayer constitute a single trade or business or more than one trade or business will turn on the facts in each case. In general, the activities of the taxpayer will be considered a single business if there is evidence to indicate that the segments under consideration are integrated with, dependent upon or contribute to each other and the operations of the taxpayer as a whole. The following factors are considered to be a good indication of a single trade or business, and the presence of any of these factors creates a strong presumption that the activities of the taxpayer constitute a single trade or business:

- (1) Same type of business. This factor applies when all of a taxpayer's activities are in the same general line, such as in the operation of a chain of retail grocery stores.
- (2) Steps in a vertical process. An example of this factor would be a taxpayer that explores for and mines copper ores; concentrates, smelts, and refines the copper ores, and fabricates the refined copper into consumer products.
- (3) Strong centralized management. A taxpayer that might otherwise be considered as engaged in more than one trade or business is properly considered as engaged in one trade or business when there is a strong central management, coupled with the existence of centralized departments for such functions as financing, advertising, research, or purchasing.

For recent court decisions that discuss strong centralized management and the application of the unitary concept to diverse businesses, see *Mole-Richardson Co. v. Franchise Tax Board* (1990) 220 Cal.App.3d 889, 894; *Tenneco West, Inc. v. Franchise Tax Board* (1991) 234 Cal.App.3d 1510 and *Dental Insurance Consultants, Inc. v. Franchise Tax Board* (1991) 1 Cal.App.4th 343. For application of the unitary

tests to passive holding companies, see FTB Legal Rulings 95-7 and 95-8, dated November 29, 1995.

As noted above, the activities of a single corporation or group of commonly owned corporations do not always constitute a single unitary business. If a taxpayer has two or more trades or businesses that are not unitary with one another, separate combined report computations must be made to compute business income and apportionment factors for each trade or business and to apportion to California the business income of each.

California law classifies income as either "business" or "nonbusiness." Business income is income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. Business income is assigned through formula apportionment, R&TC Section 25120(a). Nonbusiness income is all other income, R&TC Section 25120(d), and is generally allocated to a particular jurisdiction (R&TC Sections 25123-25127). Regulations under R&TC Section 25120 also provide guidance for distinguishing between business and nonbusiness income. For further discussion and examples of business and nonbusiness income, refer to the instructions for Schedule R, Apportionment and Allocation of Income.

#### Unity of Ownership

A corporation may file a combined report with other members of a unitary group only if the corporations are members of a commonly controlled group as defined by R&TC Section 25105. Generally, a commonly controlled group exists when stock possessing more than 50% of the voting power is owned, or constructively owned, by a common parent corporation (or chains of corporations connected through the common parent) or by members of the same family. A commonly controlled group also includes corporations that are stapled entities, see R&TC Section 25105(b)(3). Special rules are provided in R&TC Section 25105 for partnerships, trusts and transfers of voting power by proxy, voting trust, written shareholder agreement, etc.

### The Use of a Combined Report

Two or more corporations conducting a unitary business within and outside California are required to use the combined reporting approach to determine California source income subject to tax by California.

R&TC Section 25101.15 allows corporations conducting a unitary business wholly within California to elect to use a combined report.

A corporation that has made a valid election to be treated as an "S corporation" may not generally be included in a combined report. However, in some cases, the FTB may use combined reporting methods to clearly reflect income of an S corporation, R&TC Section 23801(d)(1).

The combined report is a means by which the income of a unitary business is divided among the taxing jurisdictions in which the trade or business is conducted. A combined report is not

a "return," but merely the name given to the calculations by which multi-entity unitary businesses apportion income on a geographic basis. There is no "combined report" form; tax is calculated on an attachment to Form 100 or Form 100W using the format described in this publication.

In a combined report, the entire amount of unitary business income of all corporations in the unitary group (including unitary members with no property, payroll, or sales within California) is aggregated in the combined report.

The combined business income of the unitary group is then apportioned to California and to the unitary members subject to tax in California. Details of this formula are discussed in the instructions to Schedule R, Apportionment and Allocation of Income. Refer to R&TC Sections 25129 through 25137 and the corresponding regulations for guidelines on calculating the apportionment formula. The process of apportioning the combined business income to the taxpayer members of the group is commonly referred to as "intrastate apportionment." The rules for those computations are provided in Title 18, Cal Code Reg. Section 25106.5(c)(7). The California net income of each member is then computed, taking into account its share of apportioned business income or loss, income from a business wholly conducted in California, California source nonbusiness income or loss, and allowable California source net operating loss. Credits are applied against the tax on a separate entity basis. Unless otherwise provided by statutory authority, specific credit(s) are only available to the taxpayer corporation that incurred the expense that generated the credit(s). Generally, each California taxpayer included in the combined report must file its own tax return using Form 100 or Form 100W. However, some unitary groups may elect to file a single group Form 100 or Form 100W and report the sum of the separate tax liabilities of the unitary members. See Schedule R-7 of Schedule R, Apportionment and Allocation of Income.

Unlike a consolidated return, in which the group is treated as a single taxpayer, members of a unitary business are taxed individually and each affiliate doing business, qualified to do business, or incorporated in California is subject to at least the minimum franchise tax.

#### Contents of a Combined Report

A combined report should contain the following:

- A list of subsidiaries/affiliates and their California corporation numbers and FEINs;
- A combined profit and loss statement in columnar format disclosing each corporation's statement of profit and loss;
- A schedule in column format disclosing the various adjustments for each corporation necessary to convert the combined profit and loss statement to the combined income subject to apportionment. This schedule includes any adjustments necessary to revise federal or foreign income to that reported for California purposes, as well as adjustments for income from a separate trade or business or for nonbusiness income or loss;
- A combined apportionment formula in column format disclosing for each corporation the total amount of property, payroll, and

sales, and the amount of California property, payroll, and sales;

- A schedule in column format disclosing for each corporation any items of nonbusiness income or expense allocated to California;
- Schedules disclosing the computation of the charitable contributions adjustment;
- A schedule in column format of the alternative minimum tax calculation for each corporation;
- Schedules in column format disclosing for each corporation all data required by Form 100 or Form 100W. These schedules include:
  1. Balance sheets;
  2. Gains and losses from sale or exchange of assets;
  3. Taxes on or measured by income;
  4. Dividends and interest received;
  5. Income or loss from rentals, royalties, partnerships, and miscellaneous sources; and
  6. Net operating losses; and
- Schedules in column format showing the computation of income apportionable and allocable to this state for each member of the group, and the computation of each member's tax credits and tax liability.

A comprehensive example illustrating the use of the above schedules begins on page 9.

## Consolidated Return Distinguished From a Combined Report

Unless specifically stated otherwise, California does not follow the federal consolidated return regulations provided under Internal Revenue Code (IRC) Section 1502. With respect to earnings and profits (E&P) and stock basis, California has no provisions similar to the investment adjustments allowed for federal purposes under Treas. Reg. Sections 1.1502-32 and -33. The E&P of each entity in the combined report is calculated on a separate accounting basis and does not include the E&P of any lower tier subsidiaries (see *Appeal of Young's Market Company*, Cal. St. Bd. of Equal., 11/19/86). Likewise, the cost basis of a unitary subsidiary's stock is not adjusted to reflect the E&P of that subsidiary (see *Appeal of Safeway Stores*, Cal. St. Bd. of Equal., 3/2/62 and *Appeal of Rapid American Corp.* Cal. St. Bd. of Equal., 10/10/96).

## S Corporations

If an S corporation holds 100% of the stock of a subsidiary, and elects to treat that subsidiary as a qualified subchapter S subsidiary (QSub), then a combined return is not filed. Instead, the QSub is disregarded, and the activities, assets, liabilities, income, deductions, and credits of the QSub are treated as activities, assets, liabilities, income, deductions, and credits of the S corporation parent. If the QSub is not unitary with the S corporation, then it is treated as a separate division and separate computations must be made to compute business income and apportionment factors for the QSub and the S corporation, and to apportion to California the business income of each.

## Corporations With Different Accounting Periods

### Common Accounting Period Necessary

When filing a combined report, each member must align its income and apportionment data from its own accounting period to the accounting period of the "principal member." Where there is a parent-subsidiary relationship in the combined reporting group, the parent corporation will generally be the principal member. If there is no corporation in the combined reporting group which is a parent corporation to all the other members, the principal member will be the member that is expected to have, on a recurring basis, the largest value of real and tangible personal property in California as determined for property factor purposes. However, the taxpayer members of a combined reporting group may elect to treat any other member of the combined reporting group as the "principal member." However, once the election is made in the first year that a combined report is required, the principal member may only be changed with the consent of the FTB. See Title 18, Cal Code Reg. Section 25106.5(6)(12).

### Income Calculation

Each member of the group should generally use the actual figures taken from its books to determine the proper income and related computations corresponding to the accounting period of the principal member. This will usually require an interim closing of the books for members whose normal accounting period differs from the accounting period of the principal member. Alternatively, a pro-rata method of converting income to the principal member's accounting period will be accepted as long as the results do not produce a material misstatement of income apportioned to the state (see Title 18, Cal Code Reg. Section 25106.5-9).

### Pro-Rata Method

Under the pro-rata method, income of a member of the group is converted to the accounting period of the principal member on the basis of the number of months falling within the applicable taxable year. For example, if a parent corporation operates on a calendar year basis and a subsidiary includable in a combined report operates on a September 30 taxable year, it is necessary to assign 9/12 of the subsidiary's unitary income of one taxable year and 3/12 of the unitary income of the succeeding taxable year to arrive at a full twelve months' income to be included in the combined report. Where this procedure results in using the income of a corporation whose taxable year has not yet closed, it may be necessary to make an estimate based on available information and amend the tax return at a later date.

### Apportionment of Combined Unitary Income Using a Common Accounting Period

The factors of the combined formula should be computed on the basis of the same accounting period as was used to compute the unitary income. If an interim closing of the books was done to determine income attributable to the accounting period of the principal member, then the actual figures from the interim closing should be used to determine the apportionment factors as well. If the pro-rata method is used to

convert income, then a pro-rata method should also be used to convert the factors of a member of the group to the accounting period of the principal member.

Once income and apportionment factors have been placed on a common accounting period, combined unitary business income is apportioned to California and to each of the taxpayer member corporations filing returns in California. For each California reporting corporation with a normal accounting period which differs from the accounting period of the principal member, the California income apportioned to that corporation is then converted back to the corporation's normal accounting period. This conversion is made on the basis of the number of months falling within the common taxable year of the group.

The computations necessary to determine the combined income under the pro-rata method, when members of the group are on different accounting periods, are illustrated in the example beginning on page 9 of this publication. For more information see Title 18 Cal. Code Reg. Section 25106.5-4.

## Part-Year Members

A part-year member is a corporation that either becomes a member or ceases to be a member of the unitary group after the beginning of the taxable year. If the part-year member is required to file two short period returns for the taxable year, then the income for the period in which the member was unitary with the group must be determined on a combined basis. The income for the remaining short period will be determined on a separate basis (or on a combined basis with a different group if the taxpayer had a unitary relationship with one or more corporations in that short period).

If the part-year member is **not** required to file short period returns, then it must file a single return for the entire year. The income reported on that return would be determined by combined reporting procedures for any period in which the part-year member was part of a unitary group, and by separate accounting for any period it was not part of a unitary group. Use the actual income and apportionment data from the common unitary period to apportion income for that period. See the interim closing discussion under "Apportionment of Combined Unitary Income Using a Common Accounting Period." However, the comprehensive example beginning on page 9 contains an acceptable alternative method for this computation, if that method does not cause income apportioned to this state to be materially misstated. For more information see Title 18 Cal. Code Reg. Section 25106.5-9.

**Note:** R&TC Section 24632 provides that the taxable year of a taxpayer may not be different than the taxable year used for purposes of the IRC, unless initiated or approved by the FTB. Whenever a taxpayer is required to file a federal return for a period of less than 12 months, a California return for that period is also required. Federal due dates for these short period returns also apply for California.

## Adjustments for Intercompany Transactions

### Intercompany Sales

Title 18 Cal. Code Reg. Section 25106.5-1 provides detailed rules relating to the treatment of intercompany transactions between members of a combined reporting group. These regulations apply to intercompany transactions that occur in taxable years beginning on or after January 1, 2001.

In general, the regulations adopt the treatment of intercompany transactions for federal consolidated return purposes (Treas. Reg. Section 1.1502-13). Under those regulations, income from intercompany transactions is generally deferred until immediately before such time that:

- 1) The asset leaves the group by a sale or other disposition to a nonmember;
- 2) The buyer and the seller no longer constitute members of the same combined reporting group, including by means of a water's edge election; or
- 3) The purchaser converts the asset to a nonbusiness use.

When income from a deferred intercompany transaction is required to be restored, it is apportioned using the apportionment percentages of the members of the group for the taxable year in which the income is restored. Special rules apply for "partially included water's edge corporations" described by R&TC Sections 25110(a)(4) and (a)(6).

A taxpayer may elect to report income from an intercompany transaction in the year in which that transaction occurred, if it has made a similar election under Treas. Reg. Section 1.1502-13(e), or in the event that regulation does not apply, if the intercompany transaction was reported as current taxable income in the year of the intercompany sale for federal or foreign national tax purposes.

### Intercompany Distributions in Excess of Stock Basis

An intercompany distribution between members of a combined reporting group that exceeds the payor's E&P and stock basis, described by IRC Section 301(c)(3), is deferred. That income is restored to the extent that the holder of the stock disposes of its stock, even if the distributor remains in the holder's combined reporting group. If the distributor liquidates into the distributee, the deferred income is taken into account ratably over 60 months, unless the taxpayer elects to take such income into account in full in the year of the liquidation.

### Effect of Intercompany Transactions on Apportionment Factors

Intercompany transactions are disregarded for purposes of the property factor. The purchaser takes the seller's original cost prior to the

intercompany transaction, so long as the seller and purchaser remain in the same combined reporting group. If the purchaser and the seller leave the same combined reporting group, resulting in a restoration of deferred income, the property factor is adjusted to reflect the purchaser's original cost. Intercompany rents are also disregarded for purposes of the property factor.

Intercompany transactions are disregarded for purposes of the sales factor, even if income from an intercompany transaction is required to be restored as a result of the purchase and the seller leaving the same combined reporting group. If an asset that was sold in an intercompany transaction is later sold to a nonmember, the gross receipt from the sale to the nonmember is reflected in the sales factor of the intercompany purchaser.

### Dividends

To the extent that intercompany dividends are paid out of E&P derived from unitary business income, they are eliminated in computing the California measure of tax (R&TC Section 25106). In determining whether a dividend is paid out of unitary E&P, distributions are deemed to be paid first out of current E&P and then out of prior years' accumulation in reverse order of accumulation. Distributions paid out of nonbusiness E&P or distributions from E&P accumulated prior to the time the payer corporation became a member of the combined group are not eliminated from the income of the recipient corporation (although such dividends may be subject to deduction under R&TC Sections 24411).

### Intercompany Transactions in Taxable Years beginning before January 1, 2001

Intercompany transactions which occurred in taxable years beginning before January 1, 2001, are governed by pre-existing practices, even if, in a later year, the asset which was the object of an intercompany transaction is later resold to a nonmember or the seller and the purchaser discontinue their combined reporting relationship. Accordingly, the prior practices of the Franchise Tax Board are reproduced here.

### Summary of Prior Practices

The following guidelines reflect the FTB's policy regarding adjustments necessary to properly reflect intercompany transactions among unitary affiliates included in the combined report that occurred in taxable years beginning before January 1, 2001.

### Inventories

Income from intercompany sales of inventory is eliminated from unitary business income. The seller's basis in the inventory will carry over to the buyer in the intercompany sale. Intercompany profits in inventory shall be eliminated for property factor purposes.

### Intangible Assets

Gain or loss from intercompany sales of intangible assets shall be eliminated from unitary business income. The seller's basis in the intangible assets will carry over to the buyer in the intercompany sale.

### Fixed Assets and Capitalized Items

The gain or loss on intercompany sales of business fixed assets or capitalized intercompany charges and expenditures between members of a combined group are generally deferred. The exception to this rule occurs when an affiliated group that files a consolidated federal return elects not to defer gain or loss on intercompany transfers. In that case, the federal election will be allowed for the combined report.

Under the general rule, the gain or loss remains deferred as long as both the seller and the purchaser remain in the combined group and the asset is not sold to outsiders. When either the seller or purchaser is no longer a member of the combined group, or the group for any reason terminates combined reporting, the gain or loss is reportable by the seller at a time immediately preceding the date either corporation ceases to be a member of the group. If the asset is sold to third parties, the deferred gain or loss is reportable by the combined group in the year of sale. A water's-edge election is also a restoration event which will cause previously deferred intercompany gains and losses to be included in income on a pro-rata basis over five years (refer to FTB Notice 89-601 for further details of this computation). The amount of gain recognized upon the occurrence of a restoration event is generally the same amount that would be reportable for federal purposes under similar circumstances in a consolidated return.

Where intercompany gain or loss is deferred, the basis of the asset for property factor purposes shall be the seller's cost.

### Other Factor Adjustments

For factor purposes, intercompany sales and other intercompany revenue items are eliminated in computing the numerator and denominator of the sales factor. Intercompany rent charges are also eliminated from the property factor computation.

## Unitary Partnerships

When a corporation is a partner in a partnership and the partnership's activities are unitary with the corporation's activities (disregarding ownership requirements), then the corporation's share of the partnership's trade or business is combined with the corporation's trade or business (see Title 18 Cal. Code Regs. Section 25137-1). For example, assume that Corporation A has a 20% partnership interest in Partnership P and that the activities of Corporation A and Partnership P are unitary. The apportionment factors for A and P are as follows:

### Apportionment Factors of a Corporation and a Unitary Partnership

	EVERYWHERE		CALIFORNIA	
	Corporation A	Partnership P	Corporation A	Partnership P
Property	400,000	250,000	300,000	75,000
Payroll	100,000	50,000	50,000	25,000
Sales	500,000	300,000	400,000	100,000

Corporation A's 20% share of Partnership P's property, payroll, and sales is included in the combined apportionment factor.

		EVERYWHERE	CALIFORNIA	FACTOR
<b>Combined Property:</b>	Corporation A	400,000	300,000	<b>70%</b>
	Partnership P (20%)	50,000	15,000	
	<b>Combined</b>	<b>450,000</b>	<b>315,000</b>	
<b>Combined Payroll:</b>	Corporation A	100,000	50,000	<b>50%</b>
	Partnership P (20%)	10,000	5,000	
	<b>Combined</b>	<b>110,000</b>	<b>55,000</b>	
<b>Combined Sales:</b>	Corporation A	500,000	400,000	<b>75%</b>
	Partnership P (20%)	60,000	20,000	
	<b>Combined</b>	<b>560,000</b>	<b>420,000</b>	
	<b>Combined x 2</b>			<b>150%</b>
<b>Apportionment % (70+50+150)÷4</b>				<b>67.5%</b>

Net business income for Corporation A and Partnership P was \$300,000 and \$100,000 respectively. Assuming that Corporation A's distributive share of partnership P's profits and losses was also 20%, Corporation A's net income apportioned to California would be:

Corporation A net business income	\$300,000
Corporation A's distributive share of Partnership P's netbusiness income (\$100,000 x 20%)	20,000
	320,000
Multiplied by combined apportionment factor (from above)	x 67.5%
Corporation A's net income apportioned to California	\$216,000

## Net Operating Losses (NOLs)

For taxable years beginning in 2002 and 2003, California has suspended the Net Operating Loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover an NOL during the suspension period. However, the deduction for disaster losses is not affected by the NOL suspension rules.

The carryover period for suspended losses is extended by two years for losses incurred before January 1, 2002, and by one year for losses incurred after January 1, 2002, and before January 1, 2003. For more information get form FTB 3805Q.

California incorporates, with specific modifications, the provisions of IRC Section 172, concerning carryovers of NOLs incurred in the conduct of a trade or business. In general, California law allows 50% of the NOLs incurred during taxable years beginning on or after January 1, 1987, and before January 1, 2000, to be carried forward for up to five years.

For taxable years beginning on or after:

- January 1, 2000, and before January 1, 2002, 55% of the NOL may be carried forward;
- January 1, 2002, and before January 1, 2004, 60% of the NOL may be carried forward; and
- For taxable years beginning on or after January 1, 2004, 100% of the NOL may be carried forward.

Also, any NOL incurred in any taxable year beginning on or after January 1, 2000, may be carried forward for 10 years.

For taxable years beginning on or after January 1, 1994, and before January 1, 2000, new businesses may carry over 100% of the NOL incurred during the first three years of operation. The carryover period is eight years for losses incurred in the first taxable year of business, seven years for losses incurred in the second year of business, and six years for losses incurred in the third year. For taxable years beginning on or after

January 1, 2000, new business may carry over 100% of the NOL incurred during the first three years of operation. The carryover period is 10 years.

In addition, small businesses may carry over 100% of a NOL incurred during taxable years beginning on or after January 1, 1994. The carryover period is five years. For taxable years beginning on or after January 1, 2000, the carryover period is 10 years. A small business is a business with total receipts of less than \$1 million during the taxable year.

For more information regarding "eligible small business" and "new business" NOLs, get FTB Legal Ruling 96-5.

California does not have a provision that allows NOL carrybacks.

For taxable years where the taxpayer has a water's-edge election in effect, the deduction of an NOL carryover is not allowed to the extent that such NOL was determined by taking into account the income and factors of a corporation that would not have been included in the combined report if a water's-edge election had been in effect in the year in which the loss was incurred.

Further information regarding the general NOL carryover can be found in form FTB 3805Q, Net Operating Loss (NOL) computation and NOL and Disaster Loss Limitations — Corporations. California also has special NOL provisions for losses incurred in farming businesses affected by Pierce's disease, enterprise zones, the Los Angeles Revitalization Zone, Targeted Tax Areas, and Local Agency Military Base Recovery Areas. For more information regarding these NOLs, see R&TC Sections 24416 through 24416.7, form FTB 3805D, NOL Computation — Pierce's Disease; form FTB 3805Z, Enterprise Zone Business Booklet; form FTB 3806, Los Angeles Revitalization Zone Business Booklet; form FTB 3807, Local Agency Military Base Recovery Area Business Booklet; and form FTB 3809, Targeted Tax Area Business Booklet.

## Application of NOL Carryovers in a Combined Report

The NOL for each taxpayer in the combined group is determined by adjusting each taxpayer's share of the unitary business income or loss by any nonbusiness income or loss. In a subsequent year when a member of the group has positive net income, only the amount of NOL **attributable to that particular taxpayer** may be deducted. The example on the next page shows the computations involved in determining and applying an NOL in a combined report. See Title 18 Cal Code Reg. Section 25106.5(e).

Another example of an NOL is shown in Schedule 4-E in the comprehensive example on page 19 of this booklet. Although unitary business income apportioned to each taxpayer in that example was positive, a nonbusiness loss caused Corporation C to have a net loss for California. Sixty-five percent of that loss will be available to be carried forward to subsequent years, although a deduction will be allowed only from California net income apportioned or allocated to Corporation C.

## Applying an NOL in a Combined Report

**Note:** California has suspended the deduction for general NOL, Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover for taxable years beginning in 2002 and 2003. This example does not reflect the suspension rules.

YEAR 1:	Corp. X	Corp. Y	Corp. Z	Combined
Unitary business income (loss) subject to apportionment	(400,000)	(10,000)	60,000	(350,000)
Apportionment percentages	5%	1%	3%	9%
Loss apportioned to California (Combined loss x %)	(17,500)	(3,500)	(10,500)	(31,500)
Nonbusiness items wholly attributable to California	50,000	(2,500)	0	
California net income (loss)	32,500	(6,000)	(10,500)	
NOL available to be carried forward (60% of loss)	0	(3,600)	(6,300)	

YEAR 2:	Corp. X	Corp. Y	Corp. Z	Combined
Unitary business income (loss) subject to apportionment	50,000	80,000	(5,000)	125,000
Apportionment percentages	6%	4%	4%	14%
Income apportioned to California (Combined income x %)	7,500	5,000	5,000	17,500
Nonbusiness items wholly attributable to California	2,500	(10,000)	0	
California net income (loss)	10,000	(5,000)	5,000	
Application of NOL carryover from Year 1	0	0	(5,000)	
California net income (loss)	10,000	(5,000)	0	
NOL available to be carried forward (60% of loss)	0	(3,000)	0	

	Corp. X	Corp. Y	Corp. Z
Remaining NOL from Year 1	0	(3,600)	(1,300)
55% of loss in Year 2	0	(3,000)	0
NOL available to be carried forward	0	(6,600)	(1,300)

## Capital Loss Limitation

California conforms to the federal provisions for netting gains and losses from involuntary conversions, Section 1231 assets and capital assets. If the netting process results in net capital losses, the losses are not deductible in the current year, but may be carried over to subsequent years. In a combined reporting group, the members' business gains and losses in each class (i.e., the classes are involuntary conversion, 1231, short-term capital or long-term capital) are combined (without netting between classes), and each taxpayer member determines its share of the business gain/loss items in each class based on its apportionment percentage. Then, each taxpayer member applies the federal netting rules to its post-apportioned share of business gain/loss items and its California-source nonbusiness gain/loss items. If a net loss results for any taxpayer member, it may be carried forward for up to five years. For more information regarding the application of the capital loss limitation in a combined report, see Title 18 Cal. Code Reg. Section 25106.5-2.

The forms used to compute gains and losses from involuntary conversions, Section 1231 assets and capital assets are the federal Form 4684, Casualties and Thefts; California Schedule D-1, Sales of Business Property; and California Form 100 or Form 100W, Schedule D, Capital Gains and Losses. Members of a combined reporting group should complete those forms as follows:

**Note:** After computing apportioned gains and losses in accordance with the below instructions, to the extent that the same gains/losses are included in the federal net income (loss) before

state adjustments on Form 100 or Form 100W, Side 1, line 1, those federal gains/losses should be reversed on line 8, 13, or 16 of that form.

### **Federal Form 4684, Casualties and Thefts, Section B:**

**Lines 19 – 34:** Complete for each corporation included in a combined reporting group using California amounts, and identify whether the items relate to business or nonbusiness income. Any amounts entered on line 31 should be carried to that corporation's Schedule D-1, line 14.

**Lines 35 – 37:** Combine business income items reported on lines 33 and 34 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to that combined business gain/loss to determine each taxpayer member's apportioned share, then add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss (if any) reported on lines 33 and 34.

**Line 38a:** Add (or net) any loss from the preceding step to that taxpayer member's post-apportionment amounts from capital gain/loss netting, Schedule R, Side 1, line 22b.

**Line 39:** Enter this gain amount on Schedule D-1, line 3.

### **California Schedule D-1, Sales of Business Property:**

**Lines 1, 2, 4, 5, 6:** Complete for each corporation included in a combined reporting group, and identify whether the items relate to business or nonbusiness income.

**Line 7:** Combine business income items reported on lines 2, 4, 5, and 6 by all members

of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to the combined business gain/loss to determine its apportioned share; then add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss (if any) reported on lines 2, 4, 5, and 6; and gain reported on line 3.

**Lines 8 – 9:** If applicable, complete for each taxpayer member based on nonrecaptured line 7 losses reported by that member in prior years.

**Lines 11 – 12:** Instead of entering amounts from lines 7 or 8 here, carry those amounts to the Schedule R, and add (or net) with the taxpayer member's post-apportionment amounts from capital gain/loss netting, Schedule R, Side 1, line 22b. Complete the remainder of Parts II and III of the Schedule D-1 separately for each corporation in the combined report.

### **California Form 100 or Form 100W, Schedule D, Capital Gains and Losses:**

**Lines 1, 2, 5, 7:** Complete for each corporation included in a combined reporting group, and identify whether the items relate to business or nonbusiness income.

**Lines 3 – 4:** Combine business income items reported on lines 1 and 2 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to the combined business gain/loss to determine its apportioned share, then add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss reported on lines 1 and 2 and with its unused capital loss carryover from the prior year.

**Line 6:** For each taxpayer member, enter amount determined on Schedule D-1, line 7 or line 9.



**Line 8:** Combine business income items reported on lines 5 and 7 by all members of the combined reporting group. Apply the California apportionment percentage of each taxpayer member to the combined business gain/loss to determine its apportioned share. Add (or net) that amount with that taxpayer member's California source nonbusiness gain/loss reported on lines 5 and 7 and with the amount that taxpayer member entered on line 6.

**Lines 9 – 11:** Complete for each taxpayer member of the combined reporting group. Instead of entering the amount from line 11 on Side 1 of the Form 100 or Form 100W, add it to the taxpayer member's post-apportionment amounts from capital gain/loss netting, Schedule R, Side 1, line 22b.

## Alternative Minimum Tax (AMT)

Generally, the calculation of alternative minimum taxable income (AMTI) incorporates the same concepts used in the calculation of regular California taxable income. The AMTI of the members of a combined group must therefore be allocated or apportioned to California and to each member in the same manner as is regular taxable income. The AMT NOL is computed based upon AMTI and is determined for each member of the combined group using the computations described on pages 7 and 8.

The calculation of AMTI includes an adjustment that represents 75% of the difference between the adjusted current earnings (ACE) of the corporation over the AMTI determined without regard to the ACE adjustment or the AMT NOL deduction (pre-adjustment AMTI). To compute this adjustment, the ACE of the members of a combined group must be allocated or apportioned in the same manner as regular taxable income and AMTI. Each taxpayer member must compare the ACE, after apportionment and allocation to California (California source ACE), with its pre-ACE adjusted AMTI, after apportionment and allocation to California (California source pre-adjusted AMTI).

If California source ACE exceeds California source pre-adjusted AMTI (a positive ACE adjustment), 75% of the difference must be added to California source pre-adjusted AMTI. On the other hand, if California source pre-adjusted AMTI exceeds the ACE (a negative ACE adjustment), the negative adjustment may be applied to reduce California source pre-adjusted AMTI only to the extent that the aggregate positive California source ACE adjustments in prior years for that particular taxpayer member exceeded its aggregate negative ACE California source adjustments. See FTB Legal Ruling 94-3.

The computations necessary to calculate AMT for taxpayers in a combined report are shown in Schedule 5 of the comprehensive example beginning on page 20 of this publication.

## Election to File a Group Return

As a convenience, the FTB has adopted procedures under which some or all of the taxpayer members of a combined reporting group may elect to file a group return. The group return satisfies the requirement of each electing member to file its own return. The tax liability of each member of the unitary group must be computed

using the combined reporting procedures described in this booklet. A separate computation for each member of the group should be included with the group return. Each member incorporated, qualified to do business, or doing business in this state must pay at least the minimum franchise tax set forth in R&TC Sections 23153 and 23181. The tax liabilities of the electing group members are then aggregated and reported on the group return. Filing a group return does not change the tax liabilities of the taxpayer members.

The designated "key corporation" makes the election on behalf of itself and the electing members by completing Schedule R-7, Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations and attaching the schedule to the return. By filing a group return and the completed Schedule R-7, each electing member indicates acceptance of all terms and conditions set forth in the Schedule R-7 and instructions. The election is binding for the taxable year of the election and for all matters pertaining to the taxable year of the election. If estimated payments are made by the key corporation on behalf of the electing members prior to the initial filing of the Schedule R-7 (or prior to the filing of a Schedule R-7 which reflects a change in the electing members), the key corporation should, at the time of payment, provide the name and corporation number of all members intending to make the election.

To be eligible to make the election to file a group return, each corporation must: 1) be a member of a single unitary group for the entire taxable year; 2) have the same taxable year as the key corporation or the taxable year is wholly included within the taxable year of the key corporation; and 3) have the same statutory filing date as the key corporation for the taxable year.

Identify each corporation in the group return by providing the complete legal name as registered with the California Secretary of State (SOS) for each corporation qualified to do business or incorporated in California and the California corporation number and federal employer identification number (FEIN). Do not use abbreviations unless the abbreviation is part of the corporation's legal name. This information should be provided on the Schedule R-7.

## Exceptions — When A Group Return Is Not Allowed

Due to statutory filing requirements, California taxpayer corporations that have different accounting periods may not be included in a group return except as provided above. The business income of such corporations must be apportioned in accordance with the instructions for corporations that have different accounting periods (see page 5) and reported on a separate return.

Corporations may not file a group return if more than one unitary business is being conducted by any one taxpayer. For further information, get Schedule R, Schedule R-7, and their instructions.

## Example of Combined Report Computations and Schedules

The following is an example of how the combined report approach is applied:

**Note:** This example and the schedules that follow **have not** been updated to reflect the *Farmer Bros. Co. v. Franchise Tax Board* court decision regarding the R&TC Section 24402 deductible dividend provision. For an updated example, get the 2003 (REV. 04-04) version of FTB Pub. 1061, Guidelines for Corporations Filing A Combined Report.

Corporation A, the parent corporation, and its subsidiaries B, C, D, and E engage in a unitary business of manufacturing and selling items of tangible personal property. Corporations A, B, C, and E compute their income on a calendar year basis and Corporation D computes its income on the basis of a September 30 fiscal year end. Corporation A is the principal member, so Corporation D must align its income and apportionment factors to Corporation A's calendar year accounting period for apportionment purposes. Since the income of the members of the group was earned evenly throughout the year, interim closings of the books were unnecessary in this example.

Corporation A, a California domiciliary, manufactures a product, some of which it sells to its subsidiaries. Intercompany sales of inventory to the subsidiaries during the taxable year were \$500,000. The cost of those intercompany sales to Corporation A was \$400,000 resulting in intercompany profit of \$100,000. For purpose of this example, none of the inventory acquired from Corporation A remained in the inventory of the subsidiaries at the end of the year. The intercompany profit of the \$100,000 should be deferred in accordance with Title 18 Cal. Code Reg. Section 25106.5-1 and is taken into account under the matching rule in the year where there is a difference between the buyers corresponding item and the recomputed corresponding item. For more information, see the section entitled "Adjustments for Intercompany Transactions" on page 5. Since the buyer resold the entire inventory to a nonmember in that same year, the amount taken into account is \$100,000 resulting in a net adjustment of zero for the year (the \$100,000 deferred profit less the \$100,000 taken into account). Corporation A has \$100,000 interest income from its outstanding accounts receivable, \$60,000 of which was attributable to California receivables. Losses of \$100,000 were attributable to sales of obsolete equipment. The total gross receipts from the sales were \$170,000, \$68,000 of which were attributable to California. Corporation A received a \$200,000 in dividends from its unitary subsidiary (R&TC Section 25106). In addition to income from its unitary business activity, Corporation A had dividend income of \$150,000 from nonbusiness investments (\$50,000 of which was deducted under R&TC Section 24402) and a \$30,000 partnership loss from an oil and gas a nonunitary limited partnership operating entirely within California. The partnership had tax preference items for depletion and intangible drilling costs, of which Corporation A's distributive share was

\$40,000 and \$10,000, respectively. After the tax preference items were applied, Corporation A's net nonbusiness AMTI attributable to the partnership was a positive \$20,000.

Corporation B operates outside California but has some mail order sales to California customers. This example assumes that Corporation B is not taxable in California. (For further discussion of taxability within the state, refer to FTB Pub. 1050, Application and Interpretation of Public Law 86-272). Corporation B also derives interest income from its outstanding accounts receivable. During the year, Corporation B sold a fixed asset to Corporation D for a sales price of \$210,000 and a gain of \$150,000. As explained in the section entitled "Adjustments for Intercompany Transactions" on page 5, the gain was deferred. Corporation B paid \$10,000 of intercompany interest to Corporation C.

Sixty percent of the stock of Corporation C, a retailer of goods manufactured by Corporation A, was acquired by Corporation A on July 1 from an unrelated individual. Because of the economic relationship that existed prior to the acquisition, Corporation C became a member of the unitary group immediately upon acquisition. Because a short period federal return was not required, Corporation C was not required to file a short period return for California as a result of the acquisition but did an interim closing of its books on July 1. Corporation C also has business rental income from leasing a portion of the ground floor of its headquarters to unrelated third parties. Corporation C was a limited partner in a nonunitary oil and gas partnership operated entirely within California and incurred a \$150,000 partnership loss. The partnership had a December 31 year end. The partnership had tax preference items for depletion and intangible drilling costs, of which Corporation C's distributive share was \$200,000 and \$15,000, respectively. After the tax preference items were applied, Corporation C's net nonbusiness AMTI attributable to the partnership was a positive \$65,000.

The following schedules show the income computations for Corporations A, B, C, D, and E under the combined report approach:

#### **Schedule 1: Combined income subject to apportionment.**

For Corporations A, B, and E, this schedule reflects items of income and deduction for the calendar year ending 12/31/02. For Corporation C, only income and deductions incurred during the post-acquisition period of 7/1/02 through 12/31/02 are included. If the interim closing of the books method had been used to determine Corporations D's income for the 12/31/02 taxable year, then Corporation D's actual income for the calendar year would have been included in this schedule. In this example, however, Corporation D is using the pro-rata method of combining corporations with different accounting periods.

#### **Schedule 2: Computations to place Corporation D's income and apportionment factors on a calendar year basis.**

Adjustments to convert Corporation D's income to the common year end are shown on Schedule 2.

The schedule calculates 9/12 of the income and deductions from the period ending 9/30/02, and 3/12 of the income and deductions from the period ending 9/30/03 to derive the income and deductions assigned to the 12/31/02 calendar year. The property, payroll, and sales are calculated and included in the same manner.

#### **Schedule 3: Calculation of combined interest offset.**

The U. S. Supreme Court held California's interest offset provision, R&TC Section 24344(b), to be unconstitutional in circumstances in which non-business dividends or interest which are allocated outside of California exists within a unitary group (*Hunt-Wesson v. Franchise Tax Board* (2000) 120 S.Ct. 1022). As provided in FTB Notice 2000-9 the statute continues to apply, for all corporations, to interest expense assigned to business interest income.

For taxable years beginning **before** February 22, 2000, the interest offset shall also continue to apply to interest expense assignable to nonbusiness dividends and interest income, unless the taxpayer asserts that the application of the interest offset is a constitutional violation.

For taxable years beginning on or **after** February 22, 2000, that portion of the interest offset that assigns interest expense to nonbusiness interest and dividend income shall apply only to interest expense assignable to nonbusiness interest and dividend income allocated to California.

**Note.** Corporations should monitor our Website: [www.ftb.ca.gov](http://www.ftb.ca.gov) for further guidance on this matter.

#### **Schedule 4: Combined apportionment formula and entity income assignment.**

This schedule first computes the combined property, payroll, and sales within and outside California (Schedule 4-A through 4-C). For Corporation D, the property, payroll, and sales figures are from Schedule 2. On Schedule 4-D, the combined California apportionment percent is computed and is then multiplied by the combined unitary business income (from Schedule 1-A) to arrive at the group's combined business income apportioned to California. Each taxpayer then divides its own California property, payroll, and sales by the total property, payroll, and sales of the combined reporting group to compute its own California apportionment percentage. (Corporation B is not a taxpayer and its sales are not reflected in the California numerator.

On Schedule 4-E, corporation A's share of California business income is adjusted by nonbusiness income attributable to California, and the interest offset is applied.

The California business income of Corporation C is adjusted by its nonbusiness loss to derive its net income for state purposes for the period 7/1/02 through 12/31/02. This figure is combined with Corporation C's separate income for the period 1/1/02 through 6/30/02 to arrive at Corporation C's net income for the entire calendar year. In this example, Corporation C has a net loss, 60% of which will be available to be carried forward and applied against Corporation C's net income in subsequent years.

The California business income assigned to Corporation D for the 2002 calendar year period is adjusted by 9/12 and is combined with 3/12 of the 2001 calendar year income (from the prior year calculation) to arrive at Corporation D's net income for its 9/30/02 fiscal period.

#### **Schedule 5: Combined alternative minimum tax (Schedule 5-A), the ACE adjustment (Schedule 5-B), and alternative minimum tax (Schedule 5-C) for each taxpayer corporation.**

The total tax is shown on Schedule 4-E. In this example, Corporation A and Corporation E may elect to file a group return. The aggregate tax amount that would be reported on the group return would be \$26,215 (\$18,902 for Corporation A, \$7,313 for Corporation E). Neither continue Corporation C nor Corporation D is eligible to be included in a group return (Corporation C is a part-year member with net income including separate income from the pre-acquisition period, and Corporation D files its returns on a different year end from the remainder of the group). Corporation C and Corporation D must therefore file their own returns and include a copy of the combined report computations.

The computations involved in the above steps are shown on the following pages.

# **SCHEDULE 1 – COMBINED INCOME SUBJECT TO APPORTIONMENT**

## **1-A: COMBINED PROFIT & LOSS STATEMENT AS OF 12/31/02**

	CORP A	CORP B	CORP C	CORP D	CORP E	TOTAL BEFORE ADJUSTMENT	DEFERRED INCOME and RESTORATION ADJUSTMENTS	COMBINED
California ID number	7512345		7234567	7654321	7111111			
Federal ID number	62-3456789	98-7654321	61-2233445	22-11333445	69-9999999	\$18,500,000		\$18,000,000
Net Sales	\$7,000,000	\$4,000,000	\$1,900,000	\$2,600,000	\$3,000,000			
Cost of goods sold	(5,900,000)	(2,500,000)	(1,000,000)	(1,500,000)	(2,000,000)	(\$12,900,000)		(12,400,000)
Gross profit	\$1,100,000	\$1,500,000	\$900,000	\$1,100,000	\$1,000,000	\$5,600,000	0	\$5,600,000
Dividends	350,000					350,000		350,000
Interest on U.S. obligations						0		
Other interest	100,000	70,000	10,000			180,000		180,000
Gross rents			60,000			60,000		60,000
Gross royalties						0		
Net gains and losses	(100,000)	150,000				50,000	(150,000)	(100,000)
Other income (partnership loss)	(30,000)		(150,000)			(180,000)		(180,000)
Total Income	\$1,420,000	\$1,720,000	\$820,000	\$1,100,000	\$1,000,000	\$6,060,000	(\$150,000)	\$5,910,000
Compensation of officers	300,000					300,000		300,000
Salaries & wages	430,000	1,000,000	350,000	570,000	600,000	2,950,000		2,950,000
Repairs						0		
Bad debts						0		
Rents	4,800	30,000	8,000	7,200		50,000		50,000
Taxes	99,000	20,000	5,000	26,000	22,000	172,000		172,000
Interest	250,000	10,000				260,000		260,000
Contributions						0		0
Depreciation	150,000	50,000	37,000	63,000	23,000	323,000		323,000
Depletion						0		
Advertising						0		
Pension, profit-sharing, etc., plans	25,000					25,000		25,000
Employee benefit plans	75,000					75,000		75,000
Other deductions						0		
Total Deductions	\$1,333,800	\$1,110,000	\$400,000	\$666,200	\$645,000	\$4,155,000		\$4,155,000
<b>NET INCOME BEFORE STATE ADJUSTMENTS</b>	<b>\$86,200</b>	<b>\$610,000</b>	<b>\$420,000</b>	<b>\$433,800</b>	<b>\$355,000</b>	<b>\$1,905,000</b>	<b>(\$150,000)</b>	<b>\$1,755,000</b>

# SCHEDULE 1 - COMBINED INCOME SUBJECT TO APPORTIONMENT

## 1-B: STATE ADJUSTMENTS, NONBUSINESS INCOME, AND BUSINESS INCOME SUBJECT TO APPORTIONMENT

	CORP A	CORP B	CORP C	CORP D	CORP E	TOTAL BEFORE ADJUSTMENT	DEFERRED INCOME and RESTORATION ADJUSTMENTS	COMBINED
<b>NET INCOME BEFORE STATE ADJUSTMENTS</b>	\$86,200	\$610,000	\$420,000	\$433,800	\$355,000	\$1,905,000		\$1,755,000
<b>ADD:</b>								
Taxes measured by income	\$5,000	\$1,000	\$4,000		\$2,000	\$12,000		\$12,000
California corporation tax	12,000		1,000		19,000	55,000		55,000
Interest on government obligations				23,000		0		0
Capital gain/loss adjustments	10,000				(1,000)	10,000		10,000
Excess depreciation	5,000	3,000	6,000	5,000		18,000		18,000
Excess amortization						0		0
Other additions						0		0
Total Additions	\$32,000	\$4,000	\$11,000	\$28,000	\$20,000	\$95,000		\$95,000
<b>DEDUCT:</b>								
Intercompany dividends (Sec. 25106)	\$200,000					\$200,000		\$200,000
Other dividends (Sec. 24402)*	50,000					50,000		50,000
Capital gain/loss adjustments						0		0
Additional contributions						0		0
Net interest deduction (enterprise zones)						0		0
Other deductions						0		0
Total Deductions	\$250,000	\$0	\$0	\$0	\$0	\$250,000		\$250,000
<b>NET INCOME AFTER STATE ADJUSTMENTS</b>	(\$131,800)	\$614,000	\$431,000	\$461,800	\$375,000	\$1,750,000	(\$150,000)	\$1,600,000
<b>REVERSE NONBUSINESS ITEMS</b>								
Show as: (INCOME)/LOSS:								
Dividends not deducted above	(100,000)					(100,000)		(100,000)
Interest						0		0
Net rental (income)/loss						0		0
Royalties						0		0
(Gain)/loss from sale of assets						0		0
Partnership (income)/loss	30,000		150,000			180,000		180,000
Miscellaneous (income)/loss						0		0
	(\$201,800)	\$614,000	\$581,000	\$461,800	\$375,000	\$1,830,000	(\$150,000)	\$1,680,000
Interest Offset from Schedule 3								80,000
<b>UNITARY BUSINESS INCOME SUBJECT TO APPORTIONMENT</b>								<u>1,760,000</u>

\*Note: This schedule has not been updated to reflect the *Farmer Bros. Co. v. Franchise Tax Board* court decision regarding the R&TC Section 24404 deductible dividend provision.

**SCHEDULE 2 – COMPUTATIONS TO PLACE CORPORATION D'S INCOME AND  
APPORTIONMENT FACTORS ON A CALENDAR YEAR BASIS**

Year Ended:	9/30/02	9/12 of	9/30/03	3/12 of	TOTAL 12/31/02
	ACTUAL	9/30/02	ACTUAL*	9/30/03	
Net sales	\$2,800,000	\$2,100,000	\$2,000,000	\$500,000	\$2,600,000
Cost of goods sold	(\$1,600,000)	(\$1,200,000)	(\$1,200,000)	(\$300,000)	(\$1,500,000)
Gross Profit	\$1,200,000	\$900,000	\$800,000	\$200,000	\$1,100,000
Salaries & wages	\$600,000	\$450,000	\$480,000	\$120,000	\$570,000
Rents	\$7,200	\$5,400	\$7,200	\$1,800	\$7,200
Taxes	\$28,000	\$21,000	\$20,000	\$5,000	\$26,000
Depreciation	\$60,000	\$45,000	\$72,000	\$18,000	\$63,000
California corporation tax	\$24,000	\$18,000	\$20,000	\$5,000	\$23,000
Excess depreciation	\$4,000	\$3,000	\$8,000	\$2,000	\$5,000
Nonbusiness income items	\$0	\$0	\$0	\$0	\$0
Property everywhere (year end)					
Inventory	\$128,000	\$96,000	\$176,000	\$44,000	\$140,000
Fixed depreciable assets	\$420,000	\$315,000	\$500,000	\$125,000	\$440,000
Land	\$10,000	\$7,500	\$10,000	\$2,500	\$10,000
California property (year end)					
Inventory	\$12,000	\$9,000	\$20,000	\$5,000	\$14,000
Fixed depreciable assets	\$24,000	\$18,000	\$28,000	\$7,000	\$25,000
Rent expense	\$1,800	\$1,350	\$1,800	\$450	\$1,800
Payroll everywhere	\$696,000	\$522,000	\$540,000	\$135,000	\$657,000
California payroll	\$16,000	\$12,000	\$100,000	\$25,000	\$37,000
Sales everywhere	\$2,800,000	\$2,100,000	\$2,000,000	\$500,000	\$2,600,000
California sales	\$716,000	\$537,000	\$1,000,000	\$250,000	\$787,000

**Note:** The Total column is the sum of the 9/12 column and the 3/12 column.

SCHEDULE 3 – CALCULATION OF COMBINED INTEREST OFFSET

COMBINED TOTALS	
1	Total interest expense deducted
2	Water's-edge offset (from form FTB 2424)
3	Net interest expense (amount on line 1 less amount on line 2)
4	Total interest income
5	Less nonbusiness interest income
6	Business interest income
7	Balance: line 3 minus line 6, but not less than zero
8	Total dividend income
9a	Less water's-edge dividends deducted
b	Less intercompany dividends deducted
c	Other dividends deducted (R&TC Sections 24402)*
10	Balance
11	Business dividend income
12	Net nonbusiness dividend income (line 10 minus line 11)
13	Total nonbusiness interest and dividends (line 5 plus line 12)
14	Interest offset (assignable 100% to Corp A) (enter lesser of line 7 or line 13)

In the example only one entity has nonbusiness dividend income. If more than one entity had nonbusiness interest and/or nonbusiness dividend income, the interest offset would be prorated between entities by the ratio of each entity's nonbusiness interest and/or nonbusiness dividends to the total nonbusiness interest and nonbusiness dividends. For more information, see FTB Notice 2000-9 regarding the policy for the application of R&TC Section 24344(b).

**Note:** A contributions adjustment applicable to nonbusiness income of multiple entities may also require such computations.  
**\*Note:** This schedule **has not** been updated to reflect the *Farmer Bros. Co. v. Franchise Tax Board* court decision regarding the R&TC Section 24404 deductible dividend provision.

# **SCHEDULE 4 – COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT**

## **4-A: COMBINED APPORTIONMENT DATA**

PROPERTY FACTOR	CORP A	CORP B	CORP C	CORP D (pro-rated from Sch. 2)	CORP E	COMBINED
Property everywhere						
Inventory – 12/31/02	100,000	150,000		140,000	120,000	
Fixed depreciable assets – 12/31/02	1,100,000	310,000	See Monthly	440,000	400,000	
Land – 12/31/02	50,000	0	Average	10,000	100,000	
Less intercompany profit included above	0	0	Computation	(150,000)	0	
Total – end of year	1,250,000	460,000	(Sch. 4-B)	440,000	620,000	
Total – beginning of year (from 2001 report)	1,370,000	575,000		755,000	580,000	
Total beginning and ending	2,620,000	1,035,000		1,195,000	1,200,000	
Average owned property (divide by 2)	1,310,000	517,500	175,000	597,500	600,000	3,200,000
Rent expense (excluding intercompany and nonbusiness)	4,800	30,000	8,000	7,200	0	50,000
Capitalize (multiply by 8)	38,400	240,000	64,000	57,600		400,000
Combined property everywhere	1,348,400	757,500	239,000	655,100	600,000	3,600,000
California property						
Inventory – 12/31/02	41,000	0		14,000	95,000	
Fixed depreciable assets – 12/31/02	400,000	0	See Monthly	25,000	330,000	
Land – 12/31/02	20,000	0	Average	0	70,000	
Less intercompany profit included above	0	0	Computation	0	0	
Total – end of year	461,000	0	(Sch. 4-B)	39,000	495,000	
Total – beginning of year (from 2001 report)	427,000	0		47,000	453,000	
Total beginning and ending	888,000	0		86,000	948,000	
Average owned property (divide by 2)	444,000	0	175,000	43,000	474,000	1,136,000
Rent expense (excluding intercompany and nonbusiness)	1,200	0	8,000	1,800	0	11,000
Capitalize (multiply by 8)	9,600	0	64,000	14,400	0	88,000
Combined California property	453,600	0	239,000	57,400	474,000	1,224,000

**SCHEDULE 4 – COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT**

**4-B: COMPUTATION OF AVERAGE PROPERTY VALUES FOR CORP C  
(PARTIAL YEAR COMBINATION)**

MONTHLY AMOUNTS TO BE INCLUDED IN THE COMBINED PROPERTY FACTOR	DEPRECIABLE			TOTAL										
	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL	AVERAGE
	\$0	0	0	0	0	0	10,000	50,000	60,000	70,000	80,000	90,000	\$360,000	\$30,000
		0	0	0	0	0	260,000	260,000	260,000	260,000	260,000	260,000	\$1,560,000	\$130,000
							30,000	30,000	30,000	30,000	30,000	30,000	\$180,000	\$15,000
							\$300,000	\$340,000	\$350,000	\$360,000	\$370,000	\$380,000	\$2,100,000	\$175,000

**NOTE:** All of Corporation C's owned tangible property is located in California, so the same amounts will be included in both the numerator and denominator of the property factor (see Schedule 4-A).



# **SCHEDULE 4 – COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT**

## **4-C: COMBINED APPORTIONMENT DATA**

PAYROLL FACTOR						
Payroll everywhere						
California payroll						
CORP A	CORP B	CORP C	CORP D	CORP E	COMBINED	
1,630,000	1,293,000	420,000	657,000	750,000	4,750,000	
553,000	0	210,000	37,000	530,000	1,330,000	

SALES FACTOR						
Sales everywhere						
Gross receipts, less returns and allowances						
Other gross receipts (rents, royalties, etc.)						
Less intercompany receipts						
Total sales everywhere						
7,000,000	4,000,000	1,900,000	2,600,000	3,000,000	18,500,000	
270,000 <sup>(1)</sup>	280,000 <sup>(2)</sup>	70,000 <sup>(3)</sup>	0	0	620,000	
(500,000)	(210,000)	(10,000) <sup>(4)</sup>	0	0	(720,000)	
6,770,000	4,070,000	1,960,000	2,600,000	3,000,000	18,400,000	

California sales						
Sales delivered or shipped to California purchasers:						
i) Shipped from outside California						
ii) Shipped from within California						
Sales shipped from California by a unitary member to:						
i) The United States Government						
ii) Purchasers in a state where the corporation is immune under Public Law 86-272						
Other gross receipts (rents, royalties, etc.)						
Less intercompany receipts *Intercompany interest income						
Total California sales						
3,000,000	0 <sup>(5)</sup>	1,190,000	787,000	1,292,000	6,269,000	0
100,000					100,000	
128,000		70,000 <sup>(3)</sup>			198,000	
(400,000)		(10,000) <sup>(4)</sup>			(410,000)	
2,828,000	0	1,250,000	787,000	1,292,000	6,157,000	

Notes:

- (1) Equipment Sale = \$170,000
- Interest = 100,000
- (2) Equipment Sale = \$210,000
- Interest = 70,000
- (3) Interest = \$10,000
- Rents = 60,000
- (4) Intercompany interest income
- (5) Sales not assigned to California because Corporation B does not have Nexus

# **SCHEDULE 4 – COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT**

## **4-D: COMBINED APPORTIONMENT FACTORS AND ENTITY INCOME ASSIGNMENT**

1	EVERYWHERE: Property						
2	Payroll						3,600,000
3	Sales						4,750,000
							18,400,000
4	CALIFORNIA: Property	453,600	0	239,000	57,400	474,000	1,224,000
5	Payroll	553,000	0	210,000	37,000	530,000	1,330,000
6	Sales	2,828,000	0	1,250,000	787,000	1,292,000	6,157,000
7	UNITARY BUSINESS INCOME TO BE APPORTIONED (from Schedule 1-B)						\$1,760,000
8	CALIFORNIA APPORTIONMENT PERCENT (California property, payroll, sales divided by combined property, payroll, sales)						
9	Property factor (line 4 ÷ line 1)	12.6000%		6.6389%	1.5944%	13.1667%	34.0000%
10	Payroll factor (line 5 ÷ line 2)	11.6421%		4.4211%	0.7789%	11.1579%	28.0000%
11	Sales factor (line 3 ÷ line 6) x 2	30.7391%		13.5870%	8.5543%	14.0435%	66.9239%
12	Total	54.9812%		24.6469%	10.9277%	38.3680%	128.9239%
13	Apportionment percentage (divide by 4)	13.7453%	0.0000%	6.1617%	2.7319%	9.5920%	32.2310%
	BUSINESS INCOME ASSIGNED TO CALIFORNIA						
	(Line 7 x line 12)	\$241,917	\$0	\$108,446	\$48,081	\$168,819	\$567,263

# SCHEDULE 4 – COMBINED APPORTIONMENT FORMULA AND ENTITY INCOME ASSIGNMENT

## 4-E: CALIFORNIA NET INCOME

Period for which California return is to be filed	CORP A	CORP B	CORP C	CORP D	CORP E
1/1/02-12/31/02		None	7/1/02-12/31/02	10/1/01-9/30/02	1/1/02-12/31/02
BUSINESS INCOME APPORTIONED TO CALIFORNIA					
CORP A (from Schedule 4-D)	\$241,917				
CORP C (from Schedule 4-D)			\$108,446		
CORP D:					
For 12 months ended 12/02 (from Schedule 4-D)				\$48,081	
Portion reportable in current year (9/12)				\$36,061	
For 12 months ended 12/01 prior year calculation				\$50,000	
Portion reportable in current year (3/12)				\$12,500	
CORP D total for year ended 9/30/02				\$48,561	
CORP E: (from Schedule 4-D)					\$168,819
Nonbusiness income or losses wholly					
Attributable to California					
Dividends	100,000				
Net rental income/(loss)					
Gain/(loss) on sale of assets					
Partnership income (loss)	(30,000)		(150,000)		
Total	\$311,917	\$0	(\$41,554)		\$48,561
Interest offset (from Schedule 3)	(\$80,000)				\$168,819
Net income before contributions adjustment	\$231,917	\$0	(\$41,554)		\$48,561
Contributions adjustment					\$168,819
Add California separate net income for pre-acquisition period			25,000		
1/1/02 - 6/30/02 (cannot be included in the combined report)					
Net income (loss) for state purposes	\$231,917	\$0	(\$16,554)		\$48,561
Net income (loss) for state purposes					\$168,819
Net Operating Losses (NOL)					
* NOL carryover deduction	(25,000)				
* EZ, LARZ, or LAMBRA NOL carryover deduction	(50,000)				
Disaster Loss carryover deduction					(100,000)
Net income for tax purposes	\$156,917		(\$16,554)		\$48,561
Franchise Tax (8.84% tax rate), or \$800 minimum tax, if applicable	\$13,871	\$0	\$800		\$4,293
Credits					\$6,084
Credit Name Salmon/Troul code no. 200 (carryover)					(500)
Credit Name Research code no. 183					(2,000)
Credit Name Disabled Access code no 205					(125)
Alternative Minimum Tax (from Schedule 5-C)	\$5,031	\$0	\$11,236		\$0
TOTAL TAX	\$18,902	\$0	\$12,036		\$3,668
					\$7,313

\***Note:** California has suspended the deduction for general NOL. Pierce's disease, EZ, LARZ, TTA, or LAMBRA NOL carryover for taxable years beginning in 2002 and 2003. This example does not reflect the suspension rules.

# SCHEDULE 5 – COMBINED ALTERNATIVE MINIMUM TAX

## 5-A: ALTERNATIVE MINIMUM TAXABLE INCOME

	CORP A	CORP B	CORP C	CORP D	CORP E	TOTAL BEFORE ADJUSTMENT	DEFERRED INCOME and RESTORATION ADJUSTMENTS	COMBINED
<b>1 NET INCOME AFTER STATE ADJUSTMENTS (from Schedule 1-B)</b>								
AMT ADJUSTMENTS & PREFERENCES:								
2a Depreciation								
2b Basis adjustment in determining gain or loss from sale/exchange								
2c Depletion								
2d Intangible drilling costs								
<b>3 TOTAL AMTI</b>								
LESS NONBUSINESS ITEMS								
(adjusted for AMTI)								
4a Dividends								
4b Partnership (income)/loss								
Add: Interest offset								
5 Unitary business AMTI								
6 Apportionment percentage (from Schedule 4-D, line 12)								
7 Combined Business AMTI apportioned to California (line 5 x line 6)								
Nonbusiness items allocated to California (adjusted for AMTI)								
8 Dividends								
9 Partnership income/(loss)								
Less: Interest offset								
10 PRE-ADJUSTMENT AMTI								
11 ACE adjustment (from Schedule 5-B)								
<b>12 ALTERNATIVE MINIMUM TAXABLE INCOME</b>								

- (1) From nonunitary partnership  
(2) From nonunitary partnership  
(3) (\$30,000) – \$50,000 AMTI items = \$20,000 Adjusted partnership AMTI  
(4) (\$150,000) – \$215,000 AMTI items = \$65,000 Adjusted partnership AMTI

# SCHEDULE 5 – COMBINED ALTERNATIVE MINIMUM TAX

## 5-B: ACE ADJUSTMENT

	CORP A	CORP B	CORP C	CORP D	CORP E	TOTAL BEFORE ADJUSTMENT	DEFERRED INCOME and RESTORATION ADJUSTMENT	COMBINED
1 <b>TOTAL AMTI (from Schedule 5-A, line 3)</b>								
ADJUSTMENT FOR ACE:								
2 Basis adjustment in determining gain or loss from sale/exchange	500					500		500
3 Pre-apport, adjusted current earnings	(\$39,300)	\$618,000	\$649,000	\$467,800	\$374,000	\$2,069,500	(\$150,000)	\$1,919,500
LESS NONBUSINESS ITEMS								
(adjusted for ACE):								
4a Dividends	(100,000)					(100,000)		(100,000)
4b Partnership (income)/loss	(20,000)		(65,000)			(85,000)		(85,000)
Add: Interest offset	\$80,000					\$80,000		\$80,000
5 Preapportionment business ACE						\$1,964,500	(\$150,000)	\$1,814,500
6 Apportionment percentage	13.7453%	0.0000%	6.1617%	2.7319%	9.5920%			32.2310%
(from Schedule 4-D, line 12)								
7 Business ACE apportioned to California	\$249,408	\$0	\$111,804	\$49,570	\$174,047			\$584,832
Nonbusiness items allocated to California (adjusted for ACE)								
8 Dividends	100,000							
9 Partnership income/(loss)	20,000		65,000					
Less: Interest offset	(\$80,000)							
10 ADJUSTED CURRENT EARNINGS	\$289,408	\$0	\$176,804	\$49,570	\$174,047			
11 Pre-adjustment AMTI (Schedule 5-A, line 11)	\$289,340	0	\$176,773	\$49,557	\$173,999			
12 Difference	\$68	\$0	\$31	\$13	\$48			
13 75% of Difference	51	0	23	10	36			
14 Negative ACE limitation: for each taxpayer excess of aggregate prior year positive line 16 ACE adjustments over aggregate prior year negative line 16 ACE adjustments:	0	0	0	0	0			
15 <b>ACE ADJUSTMENT*</b>	\$51	\$0	\$23	\$10	\$36			

\*If line 14 is negative, it is allowed as a negative ACE adjustment only to the extent of that taxpayer's total increases in AMTI from prior year California ACE adjustments exceed its total reduction in AMTI from prior year California ACE adjustments.

# **SCHEDULE 5 – COMBINED ALTERNATIVE MINIMUM TAX**

## **5-C: ALTERNATIVE MINIMUM TAX**

Period for which California return is to be filed	CORP A	CORP B	CORP C	CORP D	CORP E
CALIFORNIA AMTI (from Schedule 5-A)	1/1/02-12/31/02	None	7/1/02-12/31/02	10/1/01-9/30/02	1/1/02-12/31/02
CORP A					
CORP C	\$289,391		\$176,796		
Add California separate AMTI for pre-acquisition period 1/1/02-6/30/02 (Computation not shown)			30,000		
CORP D:					
For 12 months ended 12/01				\$49,567	
Portion reportable in current year (9/12)				\$37,175	
For 12 months ended 12/01 (from prior year calculation)				\$53,000	
Portion reportable in current year (3/12)				\$13,250	
CORP D Total				\$50,425	
CORP E					\$174,035
AMTI ADJUSTED FOR EACH CORPORATION'S TAXABLE YEAR	\$289,391	0	\$206,796	\$50,425	\$174,035
Less exemption (subject to phaseout when AMTI exceeds \$150,000)	(5,152)		(25,801)	(40,000)	(33,991)
AMTI subject to tax	\$284,239	\$0	\$180,995	\$10,425	\$140,044
Tentative minimum tax (6.65% tax rate)	\$18,902	\$0	\$12,036	\$693	\$9,313
Less regular franchise or income tax (from Schedule 4-E)	\$13,871	0	800	\$4,293	\$6,084
ALTERNATIVE MINIMUM TAX	\$5,031	\$0	\$11,236	\$0	\$3,229

# How To Get California Tax Information

## Where To Get Tax Forms and Publications

**By Internet** – You can download, view, and print California tax forms, instructions, publications, FTB Notices and Rulings dated after 1995 from our Website [www.ftb.ca.gov](http://www.ftb.ca.gov)

**By phone** – To order current year California tax forms:

- Refer to the list in the right column and find the code number for the form you want to order.
- Call (800) 338-0505.
- Select "Business Entity Information."
- Select "Order Forms and Publications."
- Enter the three-digit code shown to the left of the form title when you are instructed to do so.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

**In person** – Many libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply).

**Note:** Employees at libraries and quick print businesses cannot provide tax information or assistance.

**By mail** – Write to:

TAX FORMS REQUEST UNIT  
FRANCHISE TAX BOARD  
PO BOX 307  
RANCHO CORDOVA CA 95741-0307

## Letters

If you write to us, be sure to include your California corporation number or federal employer identification number, your daytime and evening telephone numbers, and a copy of the notice with your letter. Send your letter to:

FRANCHISE TAX BOARD  
PO BOX 942857  
SACRAMENTO CA 94257-0540

We will respond to your letter within six weeks. In some cases, we may need to call you for additional information. Do not attach correspondence to your tax return unless the correspondence relates to an item on the return.

## General Toll-Free Phone Service

Our general toll-free phone service is available:

- Monday – Friday, 7 a.m. until 8 p.m.
- Saturdays, 8 a.m. until 5 p.m. (January through June, only)

**Note:** We may modify these hours without notice to meet operational needs.

From within the United States . . . . . (800) 852-5711  
From outside the United States (not toll-free) . . . . . (916) 845-6500  
For federal tax questions, call the IRS at . . . . . (800) 829-1040

### Assistance for persons with disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairment, please call:

TTY/TDD . . . . . (800) 822-6268

### Asistencia bilingüe en español:

Para obtener servicios en español y asistencia para completar su declaración de impuestos / formularios, llame al número telefónico indicado arriba que le corresponda.

## California Tax Forms and Publications

817 California Corporation Tax Forms and Instructions.

This booklet contains:

Form 100, California Corporation Franchise or Income Tax Return;  
Schedule H (100), Dividend Income Deductions  
Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations  
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations  
FTB 3565, Small Business Stock Questionnaire  
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations  
FTB 3885, Corporation Depreciation and Amortization

816 California S Corporation Tax Forms and Instructions.

This booklet contains:

Form 100S, California S Corporation Franchise or Income Tax Return;  
Schedule B (100S), S Corporation Depreciation and Amortization  
Schedule C (100S), S Corporation Tax Credits  
Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains  
Schedule H (100S), Dividend Income Deduction  
Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc.  
Schedule QS, Qualified Subchapter S Subsidiary (QSub) Information Worksheet  
FTB 3539, Payment Voucher for Automatic Extension for Corporations and Exempt Organizations  
FTB 3805Q, Net Operating Loss (NOL) Computation and NOL Disaster Loss — Corporations

- 814 Form 109, Exempt Organization Business Income Tax Return
- 818 Form 100-ES, Corporation Estimated Tax
- 815 Form 199, Exempt Organization Annual Information Return
- 820 FTB Pub. 1068, Exempt Organizations Requirements for Filing Returns and Paying Filing Fees
- 802 FTB 3500, Exemption Application
- 803 FTB 3555, Request for Tax Clearance — Corporations
- 831 FTB 3534, Joint Strike Fighter Credits
- 835 FTB 3805D, Net Operating Loss (NOL) Computation and Limitation – Pierce's Disease

## Your Rights As A Taxpayer

Our goal at the FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency, and fairness of our state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program, and how you can request written advice from the FTB on whether a particular transaction is taxable.

See "Where to Get Tax Forms and Publications" on this page.



# Automated Toll-Free Phone Service

(Keep This Booklet For Future Use)

Our automated toll-free phone service is available 24 hours a day, 7 days a week, in English and Spanish to callers with touch-tone telephones. To order Business Entity forms, the automated service is available from 6 a.m. to 8 p.m. Monday through Friday, except state holidays and from 6 a.m. to 4 p.m. Saturdays. You can:

- Order current year California income tax forms, and
- Hear recorded answers to many of your questions about California taxes.

Have paper and pencil ready to take notes.

Call from within the United States ..... (800) 338-0505  
Call from outside the United States (not toll-free) ..... (916) 845-6600

## To Order Forms

See "Where to Get Tax Forms and Publications" on the previous page.

## To Get Information

If you need an answer to any of the following questions, call (800) 338-0505, select "Business Entity Information," then "General Tax Information," follow the recorded instructions, and enter the three-digit code when instructed to do so.

### Code Filing Assistance

- 715 If my actual tax is less than the minimum franchise tax, what figure do I put on line 23 of Form 100 or Form 100W?
- 717 What are the tax rates for corporations?
- 718 How do I get an extension of time to file?
- 722 When does my corporation have to file a short-period return?
- 734 Is my corporation subject to franchise tax or income tax?

### S Corporations

- 704 Is an S corporation subject to the minimum franchise tax?
- 705 Are S corporations required to file estimated payments?
- 706 What forms do S corporations file?
- 707 The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?
- 708 Where do S corporations make adjustments for state and federal law differences on Schedule K-1 (100S), and where do nonresident shareholders find their California source income on their Schedule K-1 (100S)?

### Exempt Organizations

- 709 How do I get tax-exempt status?
- 710 Does an exempt organization have to file Form 199?
- 735 How can an exempt organization incorporate without paying corporation fees and costs?
- 736 I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

### Minimum Tax and Estimate Tax

- 712 What is the minimum franchise tax?
- 714 My corporation is not doing business; does it have to pay the minimum franchise tax?
- 716 When are my corporation's estimated payments due?

### Billings and Miscellaneous Notices

- 503 How do I file a protest against a Notice of Proposed Assessment?
- 723 I received a bill for \$250. What is this for?
- 728 Why was my corporation suspended?
- 729 Why is my subsidiary getting a request for a return when we

filed a combined report?

### Tax Clearance

- 724 How do I dissolve my corporation?
- 725 What do I have to do to get a tax clearance?
- 726 How long will it take to get a tax clearance certificate?
- 727 My corporation was suspended/forfeited. Can I still get a tax clearance?

### Limited Liability Companies (LLC)

- 750 How do I organize or register an LLC?
- 751 How do I cancel the registration of my LLC?
- 752 What tax forms do I use to file as an LLC?
- 753 When is the annual tax payment due?
- 754 What extension voucher do I use to pay the LLC fee and/or member tax?
- 755 Where does an LLC send its tax payments?
- 756 As an LLC I never did any business or even opened a door, bank account, or anything. Why do I owe the \$800 annual tax?
- 757 How are the LLC fees calculated?
- 758 If a corporation converted to an LLC during the current year, is it liable for tax as a corporation and as an LLC in the same year?

### Miscellaneous

- 700 Who do I need to contact to start a business?
- 701 I need a state Employer ID number for my business. Who do I contact?
- 702 Can you send me an employer's tax guide?
- 703 How do I incorporate?
- 719 How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 How do I obtain information about changing my corporation's name?
- 721 How does my corporation change its accounting period?
- 737 Where do I send my payment?
- 738 What is electronic funds transfer?
- 739 How do I get a copy of my state corporation or partnership tax return?
- 740 What requirements do I have to report municipal bond interest paid by a state other than California?
- 759 If I have nonresident members and cannot get all their signatures on the consent release form, can I still file the return?



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